A Response

to the Minister's Discussion Paper

on

Public Sector Pensions

Public Service Management Pension Plan

Alberta

Public Service Management Pension Plan Board

September 30, 1991

Alberta
GOVERNMENT PENSION BOARDS

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September 30, 1991

The Honourable Dick Johnston
Provincial Treasurer &
Minister Responsible for
Public Sector Pensions
224 Legislature Building
EDMONTON, Alberta
T5K 2B6

Sir:

Subject: Response to the Proposed Plan Changes

On behalf of the Public Service Management Pension Plan Board, I have the honour to submit our initial response to your July 9, 1991 proposal "Planning Responsibly for the Future - A Discussion Paper on Public Sector Pensions" in respect of the Public Service Management Pension Plan.

Yours truly,

J. E. Faries, FCIS
Chairman

Encl.

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PREFACE:

On July 9, 1991 the Minister responsible for public sector pensions released a discussion paper that outlined a number of proposed changes to the Public Service Management Pension Plan (PSMPP). The Minister asked the PSMPP Board to respond to the proposal by the end of September. This response is an initial response by the Board because:

1) Many of the Board's recommendations are contingent on further discussions with the Minister on specific issues such as governance.

2) Lack of sufficient information. Treasury was able to provide adequate information to assess the specific proposal but, there was not enough information to assess alternatives. For example, it was only in the final weeks of September that separate accounting for the PSMPP was released. As a result, specific recommendations dealing with the PSMPP's unfunded liability cannot be made.

A recurring theme in the Board's discussions, was the multiple role of government. The Board was careful to distinguish between government's role as sponsor and guarantor of the plan, and its role as the dominant employer in the plan.

The Board actively sought formal responses from employer and employee participants in the plan[1]. Departments, Boards, Agencies and Commissions were requested to submit responses as employers and to survey their managers from the employees' perspective. In addition to those responses, a number of managers made independent representations to the Board. As a result, the Board had extensive commentary from employers and employees within the plan on which to base its response to the Minister.

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[1] See Attachment A for a summary of the responses received.

MEMBERS OF THE
PUBLIC SERVICE MANAGEMENT PENSION PLAN BOARD

CHAIRMAN

J. E. FARIES

GOVERNMENT REPRESENTATIVE & VICE CHAIRMAN

A. F. COLLINS

MEMBERS

D. B. HARFORD

T. D. FORGRAVE

O. J. LENNIE

EXECUTIVE SUMMARY:

This report addresses many of the specific proposals regarding current service costs, indexing, the unfunded liability and other benefits. The Board recommends that:

FUNDING:

1.1 The present defined benefit plan be preserved. The desire to opt out is a function of the dramatic shift in the cost sharing found in the Minister's proposal.

1.2 Employees and employers share the cost of future funding. Current service be established on the unit credit method, a 1.0% productivity assumption be used; and the existing cost sharing arrangement be maintained.

1.3 The government be responsible for the past service unfunded liability. Existing employees share a portion of the cost of securing indexing for their service earned under the plan.

1.4 The governance of the plan be reviewed.

TAX REFORM:

2.1 Service earned after 1992 be reduced using a 3% factor for early retirement.

PORTABILITY:

3.1 Reciprocal transfer agreements be maintained and the costing of such transfer be "cost-neutral" (actuarial basis) to the plan. But for the calculation of the early retirement reduction factor and for vesting purposes the service should be recognized.

3.2 Purchase of prior service permitted under Federal tax rules be allowed but on an actuarial or "cost-neutral" basis.

A focal point of this report is governance. The issue of governance emerges not out of a desire to gain "control" of the pension plan but because the Minister's proposal indicates that the pension deal that was originally agreed to and implemented in the past is no longer acceptable by government. Under the Minister's proposal the pension deal will change from a partially funded provincially guaranteed defined benefit plan to a full self-funded employer/employee shared risk-reward arrangement. Unless the governance consequences of the "new pension deal" are properly addressed, there will be no legitimacy to imposing the discipline of full self-funding on employees and employers.

In addition, because of the restriction of Tax Reform on management compensation (i.e. spousal benefit reduction and the cap on salaries) the government should consider a plan to offset the reduction in compensation.

HISTORY OF THE PLAN:

The Public Service Management Pension Plan (PSMPP) was introduced in 1972. Being a "stacked" plan (i.e. no integration with CPP), the PSMPP offered a more generous early retirement provision and greater flexibility in recognizing private sector service. It was recognized at that time as an integral part of a new management compensation package. The employee contribution was set at 5% and the government's implicitly at 9% (this was formally recognized when Boards and Commissions were allowed to participate and when the government began making contributions in 1981). Prior to 1972 senior managers were included in the Public Service Pension Plan (PSPP).

Because there were no employee associations or third party employers involved in setting-up the plan, documentation regarding the development of the pension plan is limited. However, several senior officials involved at the time have provided comments attesting to the fact that the plan formed a part of the compensation package offered to managers.

The "pension deal" was best summarized by Dr. Hohol, then Minister responsible for public sector pensions, in 1972 on the first reading of the Public Service Management Pension Act.

> "Mr. Speaker, I beg leave to introduce a bill being The Public Service Management Pension Act. The purpose of this new act, Bill No. 100 is designed to provide special coverage for the senior employees of the government who are excluded from the bargaining unit by reason of managerial and/or contract status. It includes provision for an earlier and more flexible retirement age, and an ability to transfer pension benefits and service from any other government and/or industry. This plan, I believe, offers more options to the government in attracting top executives to the public service."
>
> Alberta Hansard, May 26, 1972, pp. 55 - 22

Based on the above and the subsequent administration of the plan, the following can be concluded:

(1) The plan was very significant in terms of a manager's overall compensation evident by the enhanced benefit and the fact that it was not a matching contributory plan. The enhancement was not intended to be paid by the employee, but through an additional 4% of payroll levied against the government. This position is supported by (i) the 18 year funding history of the plan, and ii) the treatment of management group of Boards and Commissions who subsequently joined the plan.[2]

(2) The plan was originally funded on a cash flow basis. A number of plans were established in the 1970's and in each case contribution rates were established such that a positive cash flow would extend 30 years into the future. If that could be demonstrated, then the plan was deemed to be meeting the "cost" of future service.[3]

Initially, the plan was "terminally funded". Employee and employer contributions were paid to the General Revenue Fund (GRF). All benefits were paid from the GRF and were therefore "funded" by the government upon retirement. The plan was considered "secured" because of the perpetual nature of government and the presence of the government guarantee of the benefit. It could be argued that this funding arrangement was considered desirable by all parties involved. Employees received and the employers provided a benefit for a fixed cost, without the necessity of pre-funding, while the government, in exchange for absorbing the financial risk of the plan, had at its disposal a captive pool of financing.

In 1981, the government created a "pension fund". This fund was considered to be

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[2] This position is well supported by Board minutes and evident in the accounting for contributions documented in the annual reports. Perhaps the best documentation is provided by the O.C.'s that brought employees of Boards and Commissions into the PSMPP. Attached is O.C. 279/77 (Attachment B) which outlines the terms and conditions of the Alberta Hospital Services Commission, the Alberta Oil Sands Technology and Research Authority and the Alberta Educational Communications Corporation. The reader is directed to clauses 3, 5, and 6 of Appendix "B" which state the employer shall pay 9% of salary and that participation in the plan is explicitly linked and conditional on compliance with the Government's Management Classification and Pay Plan.

[3] A number plans such as the SFPP and the UAPP were created in the 1970's. This was explicitly stated in Mr. Leitch's introduction of the UAPP Act in the legislature.

collective pension obligations guaranteed by the province. The government made an "initial deposit" of $1.1 billion. Reading Mr. Hyndman's announcement suggests a decision on the part of government to pre-fund benefits.[4] The announcement did not make any commitment for employees or employers to fund past service. Instead, it suggests that any accumulated deficits would be funded through surpluses in the GRF. Unfortunately, 1981 was the last time a surplus occurred. As a result, no additional money was put into the Fund except for net contributions from the five plans.

The PSMP Board was established with the creation of the plan to administer the plan. This continued until 1985 when the administrative responsibility was transferred to the Minister. It should be noted that the term "administration" is used in the context of delivering the legislated benefit. The critical decisions associated with the sponsorship of a pension plan (i.e. funding, benefit design, investment management, etc.) were always controlled by the government.

From an historical perspective, a number of conclusions can be made:

1) By definition the government is the sponsor of the PSMPP and this has been confirmed by the way the plan has been administered during the period. The government retained control of the decision making process reflecting its sponsorship and guarantee of the plan, its control of the membership of the Board, and its discretion to provide periodic adjustments to pensions under payment.

2) The plan was created to provide an enhanced benefit for managers and a human resource tool to actively shape the management component of the public service.

Are these conclusions still valid today?

The response from employees and employers has been "yes". There is no doubt in the responses received by the Board that the government has played and will continue to play a major role in the plan. It was also clear from the responses received by the

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[4] Mr. L. Hyndman, Alberta Hansard - March 28, 1980: p. 122.

Board that the objectives of the plan are as valid today as they were when they were originally articulated. A long standing condition of employment for public service managers is that a significant component of their compensation is deferred.

THE MINISTER'S PROPOSAL:

The proposal has three expressed goals:

1) Secure the financial base,

2) Improve portability of future service benefits,

3) Meet the new Federal Income Tax rules.

Before responding to the proposal it is important to understand the impact and significance of these changes.

Compliance with Federal Income Tax rules is something that is being imposed on the plan. Compliance is necessary to ensure that required employee contributions remain deductible for income tax. It should be noted that the Federal income tax rules set minimums for registration.

Improved portability has been long sought after in the benefit design of the plan. The proposal recommends the cancellation of all reciprocal agreements and the introduction of the 50% rule[5] for future service.

The goal to secure the financial base is by far the most important in that it deals with the funding objective of the plan, current service costs, indexing, and liquidating the unfunded liability.

To secure the financial base of the plan the proposal notes that "true pension security for employees requires that all benefits be fully funded and backed by marketable assets." To achieve this goal the proposal goes on to recommend that:

1) The indexing promise be formally recognized at 60% of inflation for both past and future service.

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[5] See the Employment Pension Plan Act, Section 29.

2) The cost of liquidating the past service unfunded liability of the five plans be equally shared by employees, employers and the government,

3) Future service be paid as it accrues by employers and employees by requiring that contribution rates be adjusted to reflect the "annual pension cost".[6]

It is the view of the Board that this proposal represents a fundamental change to the pension deal. No longer will the pension promise be secured by the government guarantee but by the ability of plan assets to generate a sufficient rate of return. By imposing the discipline of self-funding, two thirds of the funding risk associated with the past service unfunded liability and all of the funding risk associated with future service will be transferred from the government, as sponsor and guarantor, to employees and government departments, Boards, Commissions and Agencies, as employers.

These proposed changes will transform the plan from a partially funded, government sponsored defined benefit pension plan to a full, self-funded employee/employer shared risk-reward arrangement.

Key concerns raised by employees and employers in their responses to the Board included:

1) The legitimacy of asking employees to share in funding the past service unfunded liability in light of the government's multiple role and responsibilities of sponsor, guarantor and trustee of the plan.

2) Given the perpetual nature of government, is full funding necessary? Are employees being asked to pay for something now and in the future that is not really necessary?

3) While it may be appropriate for employee and employer contributions to

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[6] "Annual pension costs" means the cost required to fund current service benefits and plan deficiencies over a specified period of time (eg. 15 years).

fully fund the "annual pension costs", there has traditionally been a differential between employee and employer contributions and it was felt that this ratio should be maintained.

4) Formal recognition of indexing at 60% of inflation was considered by many to be too low.

5) A number of plan provisions such as reciprocal agreements, prior service, and the application of early retirement factors seem to have been dealt with in a regressive manner, particularly because the proposed changes are more restrictive than those required under the Federal income tax changes.

6) Underlying the concerns noted above was governance. If employees (and employers) are required to take on more risk then the decision making process and availability of information ought to be addressed.

EVALUATION AND CONCERNS

FUNDING:

The Board addressed a number of questions raised by the Minister's proposal.

1) Why full funding?

2) What was the impact of full funding on current service costs, past service unfunded liability, indexing?

3) What are the alternatives?

In considering these questions, the Board paid close attention to the comments of both employees and employers in the plan.

Why Full Funding?

Historically, public sector pension plans have not been required to be fully funded. Given the perpetual nature of government, there was no need for liquid assets to fund the accumulated pension obligations in the event of the employer's insolvency. This was also predicated to some degree on the growth of government as a direct employer in the economy. On the strength of the government's guarantee, an agreeable situation emerged in which employees contributions were paid into the GRF and the government was able to draw on those contributions as a source of captive financing.

The world has changed. While government has not gone bankrupt, its role as an employer has changed and may not grow as fast as the overall economy. As a result, with the maturity of its plans there is a real possibility that previously positive cash flows will reverse. **This has already happened in the case of the PSMPP.** While government still has the ability to fund benefits through taxation as they accrue, the magnitude of those payments and the current fiscal restraints on government have reduced the security associated with the government "guarantee". This has been recognized in other jurisdictions. The governments of Ontario, Quebec and New

Brunswick have all taken steps to recognize and fund their public sector pension plan deficits.

As a result, over the past 20 years the view that full funding is appropriate for public sector plans has become prevalent. The reasons supporting this view are to:

1) Minimize inter-generational transfers. Taxpayers should not be expected to underwrite or fund the costs of service consumed by a previous generation of taxpayers.

2) Provide leadership by example. The private sector pension industry has gone through successive phases of regulation. It is often argued that the government as a sponsor should follow the same rules it sets out for other plan sponsors. This has already happened in Ontario where the provincially sponsored plans must comply with the provincial pension legislation.

3) Impose a balance sheet discipline. Full funding requires that the cost and obligations of a plan be properly recognized and funded. As noted earlier, a number of jurisdictions in Canada have already done so.

4) Establish security. As recognized in the Minister's proposal, a government's guarantee is no longer adequate security to a pension deal.

While these are legitimate reasons, a caveat should be added. Unless the governance context is right, simply establishing a fully funded plan will not create the legitimacy necessary to impose the desired balance sheet discipline. Further, it will not provide any greater security unless additional steps are taken to insulate the plan from the political process.

The result has been a move to a shared risk-reward arrangement where employee and employer contributions fluctuate to fully fund the costs of the plans. In such an arrangement, the funding risk associated with a defined benefit plan is re-distributed between the parties to the pension deal. While the evolution of such an arrangement may be inevitable, the original objectives of the plan cannot be ignored.

Treatment of Current Service Costs, Indexing and the Unfunded Liability:

To achieve full funding, there must be a mechanism to adjust the current service costs to deal with any deficits in the future, the benefit must be clearly defined and properly accounted for, and there must be a plan put in place to deal with the unfunded liability.

Employers and employees have made comments on these three issues in their responses to the Minister's proposal. The Board has been able to identify the following consensus:

1) The plan would be more secure if it was properly funded.

2) Contribution rates should reflect the cost of the plan but the relative weighting of employee and employer contributions should be maintained.

3) Indexing should be formally recognized but the 60% suggested by the Minister's proposal was too low. There was also an indication that employees would be willing to pay for additional inflation protection.

4) There was a strongly expressed view, especially from employees, that the government was responsible for the past service unfunded liability. In other words, the unfunded liability is seen as deferred compensation which the government owes to its employees. Objection was raised on the intergenerational transfer since current employees were asked to pay for benefits earned by previous employees. Employers also expressed concern over the funding of their component of the surcharge.

5) There was also a very strong sense of frustration with the treatment of this part of a manager's compensation. The dramatic increases proposed for employee contributions caused many employees to question the cost effectiveness of the plan and led many to suggest that an "opting-out" alternative should be considered. For many employees, they would prefer that the 19% total pension cost be paid to a self-administered RRSP and they would take care of their own retirement needs.

The Board also evaluated the actuarial analysis used in developing the Minister's proposal. Two questions were addressed:

1) Are the current service costs reasonable?

2) What is the size of the PSMPP deficit?

In terms of the current service costs, the Board noted two assumptions made by Treasury that may have overstated the costs. Treasury established the cost of the plan as the "mid-point" between unit credit and attained age. The rationale for this approach was to build in a cushion to avoid raising the rates after the adjustment period. The second was the use of a 1.5% productivity assumption. Real wages have not increased by 1.5% for many years and it is unlikely that any "catch-up" will occur in the near future. Based on the unit credit method and a more modest productivity assumption of 1.0%, the minimum current service cost of the plan would be about 14.4%.

Treasury has recently released a separate accounting of the pension fund asset allocation between the six plans. The PSMPP's share of the Pension Fund would be about $474 million which would result in an imputed unfunded liability of $768 million for the PSMPP. Based on a 45 year amortization, this would require approximately a 10.5% payroll charge to fund the plan's deficit. Based on Treasury's proposal, the total funding gap which would include the cost of funding the deficit and the deficiency in current service costs would be about 12.5%.

The Board also attempted to attribute how the unfunded liability occurred. Many contributing factors, such as the impact of promotion from the PSPP, reciprocal transfers, prior service purchases, non-existent funding of ad hoc adjustments, and the unfunded liability created by recognizing all service earned under the PSPP when the plan was brought in, are difficult to quantify. The only decision that can be measured on an approximate basis, is the decision to index at 60%. Based on estimates produced by the Pension Boards Office, indexing would account for a significant portion of the unfunded liability.

Alternatives:

Consdering the views of employees and employers and applying the fiscal circumstances of the plan, the Board examined the following alternatives:

1) **Convert to a money purchase plan.** This is a drastic solution but one which was suggested in many employee submissions. The problem with this approach is that the difficulty is with the past service unfunded liability and not the current service costs. If the plan were to be wound up, what would have to be discharged is the accrued liability and not the accumulated assets. Vested employees would be foolish to accept a distribution of the accumulated assets because they would be receiving at best 38 cents on the dollar relative to the value of the pension promise. Government under this option would be faced with an immediate bill for the unfunded liability.

2) **Treat indexing separately.** The government has made two promises, one to guarantee the formula benefit and the other to make ad hoc adjustments to pensions. If the indexing assumption was divorced from the basic pension benefit, a special indexing account could be set up to fund ad hoc adjustments. This could potentially reduce the cash flow requirements of the plan. Its major shortcoming would be that all plan members would continue to bear benefit risk in terms of indexing. If the existing ratio of retired to active lives were to increase then the ability of the indexing fund to provide a benefit similar to what has been received in the past would be severely hampered.

3) **Maintain the existing plan.** To maintain the existing plan some sharing would be required. This approach would require a significant contribution on the part of government. As noted earlier over half of the unfunded liability can be attributed to indexing past service. Past service includes service earned by retired and currently active plan members While it would be unreasonable to ask existing plan members to fund the benefit accrued by a retired plan member, existing employees have indicated that they would be willing to secure their indexing benefit over the service they have earned in the plan. Employees may be willing to share in meeting a <u>portion</u> of the unfunded liability attributable to their indexing benefit. This approach would also have the advantage of preserving an attractive benefit for a reasonable cost to the employee. Unlike #2, the benefit would be predictable.

In taking into consideration the views of employees and employers and applying the fiscal circumstances of the plan, the Board would recommend that:

1.1 The present defined benefit plan be preserved. The desire to opt out is a function of the dramatic shift in the cost sharing found in the Minister's proposal.

1.2 Employees and employers share the cost of future funding. Current service be established on the unit credit method, a 1.0% productivity assumption be used; and the existing cost sharing arrangement be maintained.

1.3 The government be responsible for the past service unfunded liability. Existing employees share a portion of the cost of securing indexing for their service earned under the plan.

1.4 The governance of the plan be reviewed.

TAX REFORM:

In terms of the new Federal income tax rules, compliance is obviously required. However, the Federal income tax rules provide minimums and allow for the "grand-fathering" of pre-1992 service. The treatment of early retirement factors has been highlighted by the Board as an example of where the government's proposal goes far beyond the minimums required for compliance.

Under the Minister's proposal, early retirement factors would increase to 5% (phased in over three years). The Board acknowledges that there is a cost to applying the minimum 3% factor just to future service. Moving to a 5% reduction factor is a dramatic change from the past practices and will have a tremendous impact on human resource planning of employers. Governance is raised once again. While 5% may be more actuarially sound, if employees and employers are willing to pay the cost of the subsidy the 3% should be used. The Board recommends that:

2.1 Service earned after 1992 be reduced using a 3% factor for early retirement.

Because of the restriction of Tax Reform on management compensation (i.e. spousal benefit reduction and the cap on salaries) the government should consider a plan to offset the reduction in compensation.

PORTABILITY:

Portability, which is the ability to transfer service between pension plans, has been a long standing issue of concern among the PSMPP participants. Currently, employees can only withdraw their contributions plus 4% interest if they leave the plan. The alternative is to transfer service through a reciprocal agreement if one exists between the two plans.

The Minister's proposal provides for the introduction of the "50% rule" for service earned after the date of implementation. As well, a market rate of interest will be calculated on employee contributions after the date of implementation. Reciprocal transfer agreements will be cancelled and transfers between the Alberta family of provincially sponsored pension plans will be allowed but on a basis that "minimizes" their financial impact.

The Board was supportive of the move to improve the termination benefit under the plan. The Board was not supportive of the move to cancel reciprocal agreements. It seemed unfair to enhance the termination benefit for future service only but then to eliminate reciprocal agreements which would apply to all service. Existing reciprocal agreements have been criticized because they do not allow the transfers to occur on a fully funded basis. A series of transfers into the plan could have the effect of importing unfunded liability. It has been assumed in the Minister's proposal that the actual cost to the plan over time has been substantial but, this has not been fully documented. If the problem is how the transfers are priced, then, rather than cancelling the agreements, an effort should be made to modify their costing basis. The Board recommends that:

3.1 Reciprocal transfer agreements be maintained and the costing of such transfer be "cost-neutral" (actuarial basis) to the plan. But for the calculation of the early retirement reduction factor and for vesting purposes the service should be recognized.

The proposal also calls for the elimination of prior service purchases. The ability to purchase prior service is important to employees who leave and re-enter a particular industry through different employers. The provision of prior service purchase allows

employees an opportunity to participate in a defined benefit plan and are not by default forced to rely on a money purchase arrangement. The Board recognizes that some restrictions should be applied to time limits and the types of qualifying service. However, as long as the prior service is "priced" on an actuarial or "cost-neutral" basis, whether the service is bought or not will not be consequential to the plan. Therefore, the Board recommends that:

3.2 Purchase of prior service permitted under Federal tax rules be allowed but on an actuarial or "cost-neutral" basis.

GOVERNANCE:

As noted many times in this report, the fundamental nature of the pension deal is changing. For this arrangement to have any legitimacy reconsideration of governance is required. This must take into consideration three things:

1) **The decision making-process.** The existing decision making process would appear to be ill-suited to the type of decision making required to run a financial institution like a pension fund. In a government department decision making is funnelled up to the Minister with no public discussion until directed by the Minister. Because the risk will be borne by employees and employers (departments, boards, and commissions) they have to have greater involvement and decision making cannot be centralized in a single department.

2) **Information to members.** Individual plan members will require a greater degree of information than what is currently available to adequately assess the security of their pensions.

3) **Employee and employer relations.** This particular reform package is being driven by financial considerations. There is a broader human resource context to public sector pensions. Sharing the cost of the plan will mean that employees and employers will have a greater interest in determining the cost-benefit relationship within the plan. Determining representation on the Board should be in the hands of the stakeholders (e.g. all department heads should be given input to the nomination process).

It is the view of the Board that the issue of governance must be addressed before changes proceed.

RECOMMENDATIONS:

FUNDING:

1.1 The present defined benefit plan be preserved. The desire to opt out is a function of the dramatic shift in the cost sharing found in the Minister's proposal.

1.2 Employees and employers share the cost of future funding. Current service be established on the unit credit method, a 1.0% productivity assumption be used; and the existing cost sharing arrangement be maintained.

1.3 The government be responsible for the past service unfunded liability. Existing employees share a portion of the cost of securing indexing for their service earned under the plan.

1.4 The governance of the plan be reviewed.

TAX REFORM:

2.1 Service earned after 1992 be reduced using a 3% factor for early retirement.

PORTABILITY:

3.1 Reciprocal transfer agreements be maintained and the costing of such transfer be "cost-neutral" (actuarial basis) to the plan. But for the calculation of the early retirement reduction factor and for vesting purposes the service should be recognized.

3.2 Purchase of prior service permitted under Federal tax rules be allowed but on an actuarial or "cost-neutral" basis.

ATTACHMENT A

SUMMARY OF SUBMISSIONS RECEIVED BY THE PENSION BOARDS OFFICE ON THE PROPOSED CHANGES - PUBLIC SERVICE MANAGEMENT PENSION PLAN

Submissions were received from 23 Government Departments and from 6 Boards/Agencies/Commissions (Agencies). In most cases the submissions were made on behalf of the Department or Agency with individual and divisional submissions attached.

Because of the numbers and length of the submissions a very detailed summary is not feasible. What follows are the general positions reflected in the submissions and related recommendations.

1. Reform Process

Explicit and common concerns about employers and employees not being adequately kept informed and not being actively involved in the monitoring and/or reform process; until now.

Numerous recommendations for the "management" of the pension to be removed from direct control by Government.

2. Contribution Rates and Surcharge

Prevailing consensus that the proposed rates very significantly change the ratio between employee and employer contributions, with greater per cent increase in employee contributions.

Surcharge is generally clearly unacceptable to the membership. Some common reasons given are:

(i) Is actually the Government's responsibility via guarantee in the plan.

(ii) Is a breach of trust with recently hired managers who were led to believe that they were participants in a "good" pension plan.

(iii) Departments would experience difficulties with their budgets and in recruitment of "top" candidates.

(iv) A negative impact on morale is projected and reported (i.e. "unhappy managers").

(v) Largely because of the additional employee costs, with no commensurate increase in benefits. Numerous recommendations were made for a provision for current managers to be allowed to opt out of the plan in favour of RRSP's, etc.

3. Securing the Financial Base

General support in principle for the initiative taken by the Minister.

Alarm, however, about the magnitude of the existing financial problem and why detailed information (facts) were not being disclosed previously.

Expression that because the current management of the plan is essentially a "legislated trust" that an adequately funded position is not in itself sufficient to secure the presently prescribed pension benefits; governments in the future may again make proposals!

More active involvement and participation in "decision making" relating to the management of the plan is sought.

Considerable support for separate financial accounting by plans.

4. Portability and Prior Service

Opposition to cancelling of reciprocal agreements and removing provisions for purchasing prior service. Reasons given are the negative impact on recruitment and is not congruent with claim that proposal will "improve portability". Additionally termination benefits (enhanced) apply to service after 1991 while reciprocal transfers applied to all service and did not require vesting.

Some recommendations that the proposal for termination benefits should apply to all service.

Restriction and provisions to purchase prior service is anticipated to restrict movement of employees; an undesirable consequence.

5. COLA

The principle of prescribing COLA in legislation is strongly supported.

Prevailing view is that 60% of CPI is less than has been previous practice.

- General position is that at least 75% of CPI is desirable and should be sought even if additional contributions are required; some want 100%.

6. Early Retirement Reduction

Strong opposition to going beyond the 3% required by Federal legislation.

Strong opposition to it being applied to service prior to 1992 and to deferred pensions.

7. Interest Rate on Contributions

Strong support for the change.

Recommendations that it be made to apply retroactively.

8. Termination Benefits

Concern that details of calculations are not available, i.e. how much better?

Identification that "awkward" situations may arise, such as "withdrawal of post 1992 benefits is contingent upon sacrificing pre 1991 benefits". Suggestion that decisions for pre 1992 and post 1991 benefits be independent.

9. Deletion of 35 Year Limit on Accrual of Service

A few submissions were opposed to this change; on the basis that it may encourage people to stay in employment longer than is in the best interests.

Conceivably a pension earned could approach 100% of pensionable salary, i.e. 45-50 years of service.

A majority of submissions made no mention on this issue.

10. General

A prevailing concern was that the proposals in general and in total are perceived to entail an increase (significant) in contributions with a (rather) significant reduction in benefits, i.e. especially for those lacking the 80 factor.

An undertone to a majority of the submissions is that given the present "management" of the plan, even if and when the benefits are adequately funded, security of the benefits is not assured as future Governments can make proposals which could alter the deal.

ATTACHMENT B

Alberta

ORDER IN COUNCIL

APPROVED AND ORDERED.

COPY

LIEUTENANT GOVERNOR

O.C. 279/77

March 15, 1977

EDMONTON, ALBERTA

Upon the recommendation of the Honourable the Acting Provincial Treasurer, the Lieutenant Governor in Council, pursuant to section 35 of The Public Service Management Pension Act, orders that the provisions of The Public Service Management Pension Act be applied to members and employees of the Government bodies, boards or commissions listed in the attached Appendix "A", subject to the terms and conditions contained in Appendix "B" attached hereto.

CHAIRMAN

APPENDIX "A"

THE PUBLIC SERVICE MANAGEMENT PENSION ACT

MEMBERS AND EMPLOYEES OF
GOVERNMENT BODIES, BOARDS OR COMMISSIONS
COVERED BY THE ACT

1. The Alberta Hospital Services Commission on and after November 4, 1976.

2. The Alberta Oil Sands Technology and Research Authority on and after February 1, 1976.

3. The Alberta Educational Communications Corporation on and after February 1, 1977.

APPENDIX "B"

THE PUBLIC SERVICE MANAGEMENT PENSION ACT

TERMS AND CONDITIONS

1. In this Order

(a) "employee" means any member or person whose position is designated as a management position by the Minister under The Public Service Management Pension Act; and

(b) "employer" means any Board, Commission, Agency or other Government body described in Appendix "A".

2. In the application of The Public Service Management Pension Act to employees, the statutory contributions required under section 5 of the Act shall be deducted and remitted to the Board by the employer and the interest payments directed by section 7 of the Act shall be made by the Provincial Treasurer.

3. Employer contributions shall be made by the employer to the General Revenue Fund of an amount equivalent to nine per cent of the employee's salary in respect of current service with the present employer.

4. An employee who has service in a position with his present employer but who was not eligible to contribute under the said Act, and who has since become a contributor, may have that period of service when he was not eligible to contribute recognized for pension purposes, providing both the employee and the employer contributions are paid on that period of service from his commencement date of service or on and after July 1, 1972, whichever comes last, together with interest that would have accumulated thereon, had an account been maintained in respect of him, to the date of completion of payment in full.

5. Each employer shall provide to the Board a certificate from the Public Service Commissioner to the effect that their management employees classification and compensation plans conform to and are consistent with the Government's Management Classification and Pay plan.

6. Each year the Public Service Commissioner, after reviewing the management classifications of the employers shall advise the Pension Board of any management classification transactions processed during the preceding year where the principles of the Government's Management Classification and Pay Plan were not applied, and the Board may order that the Act no longer applies to an employee if it is satisfied that the classification and compensation plan applicable to that employee is not consistant with the principles of the Government's Management Classification and Pay Plan.